

February 14, 2011

The Honorable Ben Bernanke, Chairman,
Board of Governors of the Federal Reserve System,
20th Street and Constitution Avenue, Northwest
Washington, DC 20551

Dear Chairman Bernanke:

Del Norte Credit Union is a financial cooperative located in Northern New Mexico with almost 40,000 members. Although we are under \$10 billion in assets we are still very concerned about the impact of Regulation II on our organization and our members.

The interchange fee limitations of the Dodd-Frank Act are a windfall for retailers like Walmart which would directly benefit through increased fees shouldered largely by low income Americans and on previously non-banked consumers just entering into the banking system for the first time. This may be an unintended consequence when compared to what was originally thought to be a consumer friendly amendment, but it is pointed out in plain language within the Federal Reserve's Regulation II several times with language such as "The Board notes that even the highest-cost issuers have sources of revenue in addition to interchange fees, such as cardholder fees, to help cover these costs," and "Finally, the Board recognizes that excluding fixed costs may prevent some issuers from recovering through interchange fees some costs associated with debit card transactions. However, as noted above, the Board also recognizes that issuers have other sources, besides interchange fees, from which they can receive revenue to help cover the costs of debit card operations." The transfer of costs from the merchant to the consumer is evident within this language. The Federal Reserve's attitude of 'it's okay not to charge merchants a fee even equal to the costs incurred by financial institutions because financial institutions can simply raise fees on consumers' is, in and of itself, unconscionable.

Due to the limitations imposed by the proposed Regulation II, free checking programs are already becoming a thing of the past. Debit card reward programs and high-yield checking accounts will also be at risk as these programs were largely funded by interchange fees. Under the provisions of Regulation II, checking accounts will only be a profitable/viable product if either a fee is levied or if the checking consumer bundles several other products and services with the same financial institution such as auto, signature, and home loans. The resulting landscape will most likely be a scenario whereby wealthy Americans will qualify for some type of relationship pricing model and avoid fees for checking products, whereas low-income Americans and the non-banked entering into the U.S. banking system for the first time will have to shoulder the burden of this regulation. The latter groups will most likely not qualify for relationship pricing models and will have to pay the types of fees referred to within the Federal Reserve's Regulation II.

The interchange fee limitations imposed by Regulation II do not allow interchange fees charged to include costs such as variable switching fees incurred by issuers, fixed costs for these card services incurred by the issuers, and fraud costs and losses also incurred by the issuers. This conflicts with the Dodd-Frank Act which states that the interchange transaction fees should be reasonable and in

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proportion to the costs incurred. However, as pointed out earlier, the Federal Reserve is not concerned as financial institutions can simply fee consumers to make up the difference. Debit cards and interchange fees were considered to be a viable alternative to the costs of accepting checks such as delayed float, fraud, and the collections of non-sufficient funds. Now that debit cards have become the norm, the costs and risks associated with transaction clearing in the past have been forgotten by merchants, but is still an economic benefit to the merchant. However, under Regulation II, financial institutions will be unable to recover any revenue associated with these economic benefits to the merchants and will have to cover costs such as fraud losses without any ability to recognize any offsetting revenue streams. Again, the consumer will cover these costs through increased fees.


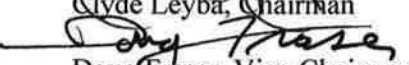
As merchants have complained about decreasing margins associated with bank fees, it is unlikely that the reduction of these fees will result in a significant decline in prices to the consumer; rather it may simply provide increased margins for merchants. As these increased margins will be financed through increased consumer fees, the U.S. consumer will be squeezed with higher fees financing increasing profit margins for merchants.

The \$10 billion cap also concerns Del Norte Credit Union. While we are less than \$400 million in assets, we are concerned that economic and/or political factors will force the fees charged by smaller financial institutions to converge with levels charged by larger institutions. The impact would be greater for smaller institutions as they do not have the economies of scale that the large banks have and most likely have higher associated debit card costs. There will be an impact on revenue for smaller financial institutions on day one of the regulation as the preferred merchant routing may require consumers to use a PIN rather than simply a signature and would therefore decrease interchange income for all financial institutions.

We agree with Senators Thomas R. Carper, Judd Gregg, David Vitter, Christopher A. Coons, Pat Roberts, Evan Bayh, Mark Warner, Richard Shelby, Robert F. Bennett, John Tester, Mike Crapo, Sam Brownback, and Bob Corker in their December 9, 2010 letter to Chairman Ben Bernanke that having government fix prices in almost any venue is a bad idea, that in the long term, price fixing creates more problems than it solves, that price fixing harms consumers, and that all costs to the issuers and economic value to the merchants should be considered. Regulation II specifically does not consider all costs to the issuers or economic value to the merchant and specifically harms consumers by relying on the opinion that issuers have the ability to raise fees on cardholders to recover costs rather than passing the costs on to merchants for the economic value of this transaction channel.

Respectfully,

The Board of Directors of Del Norte Credit Union:


Clyde Leyba, Chairman

Doug Fraser, Vice-Chairman

Michael Trujillo, Secretary


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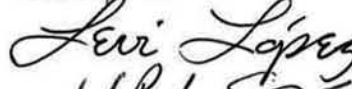
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Luis Alba, Treasurer



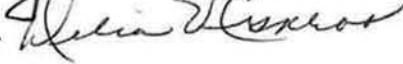
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